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FINANCIAL LITERACY RESOURCES COLLECTION

Office of the Vice-President
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CREDIT

What is credit? How does a credit card work?

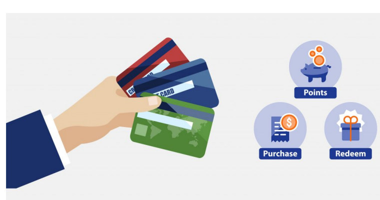
Credit allows consumers to have access to goods and services before a payment is made. Essentially, a credit card entitles you to a loan of the amount of money spent on the card, which is paid off at the end of each credit period.

Credit cards allow consumers to commit money before physically having it, for instance, making a large purchase a few days before receiving a paycheck. The amount of credit you have, or the maximum credit limit per month, varies between individuals and is based on your credit score. In short, this is the amount of trust lenders have in your ability to pay off the money spent on your credit card each period based on a variety of factors.

Each period, there is a minimum amount that the consumer must pay off from what they spent. However, many credit cards charge interest when the amount is not paid in full. You can apply for a credit card online, by mail, or in person at a bank.

What important factors should I consider when choosing a credit card?

The first and most important factor is determining whether a credit card is right for you. You must be at least 18 to apply for a credit card, however some cards have a minimum age of 21. Moreover, it is important to have the financial capacity to manage the responsibility of a credit card. Will I be able to pay my credit card off each month? Can I afford the additional fees that come with some credit cards?



Secondly, it is important to decide what you want the credit card for. Some cards offer loyalty programs, for example, Air Miles ®. However, these cards may come with higher annual fees.

Standard credit cards often have a lower or no fee and can offer cash back, savings, and loyalty points. There are also speciality cards designed for particular demographics of people, including students, that have different features.

Other important factors to look for when choosing a credit card include:

- Minimum repayment amount for each period
- Annual fee
- Interest rates
- Additional charges (exceeding credit limit, shopping abroad, late payments)

There are many credible websites for comparing credit cards between institutions. If you are already committed to a financial institution, many have comparison tables on their websites. This is a very helpful way to identify differences between cards. Here are each of Canada's largest financial institutions' credit card comparison tools to get started:

What is credit score? How can I improve my credit score?

A credit score is a number that lenders use to decide whether to extend you credit and the amount they provide. It is their confidence in your ability to handle credit responsibly and to repay the amount. The higher the score, the lower the risk of providing credit. There is no objectively good score. This is the subjective interpretation of the lenders. However, having a higher score is always better.

Your credit score is based off of:

- History of repaying loans and credit card balance
- Current debt
- Length of account usage
- Amount of credit used versus what is available
- Types of credit used

The best way to improve or sustain your credit score is to maintain positive habits. Paying your bills on time, keeping debt low, and ensuring no mistakes on your file are good ways to raise your credit score. If your credit rating is linked to another person (a friend, spouse, or family), keep in mind that your credit score is affected by their financial habits.

In Canada, you can check your credit score with [Equifax] or [TransUnion].

How do I pay off my credit card?

The most important part of having a credit card is developing strong habits to ensure you do not miss a payment period. Before you pay off your credit card, it is crucial to read over your bank statement to ensure all transactions are accurate.

Many credit cards allow you to pay by direct debit. This means that when statement balances become due, money will be automatically withdrawn from your debit account to pay off your card. This is a good way to ensure you pay each month. If this is an option from your institution, look at setting this up.

Otherwise, each month, you must transfer or send money to your institution to pay off your card. You can also subscribe to have your bill sent electronically to your email each month. Email reminders are another way to ensure you do not miss a payment. It is a wise idea to pay the largest balance you can to avoid high interest fees.

FINANCIAL PLANNING

As a prologue, the topic of financial planning is extremely subjective. Each individual has diverse needs, and thus must go about saving, budgeting, and spending uniquely. The content below is simply a generalized suggestion. Financial planning is an ongoing and individualized process, so continue to reflect on your habits often.

What are some good financial habits I should begin developing now?

To begin, you should always have a backup plan. Finances are constantly evolving, and so it is crucial to be prepared for the best and the worst of times. Put aside a small amount of money every week to build an emergency fund in the event that you encounter struggles.

Budgeting is a strong way to avoid the need to access your emergency fund. It is important that after crafting a budget, you are diligent about sticking to the budget, otherwise the process is useless. The process of budgeting is further outlined below.

Queen's students have access to Lynda.com, LinkedIn's online learning platform. Through this platform, you can access hundreds of resources on personal finance - here's one of many available to get you started!

Beginning to build your credit where applicable is another habit that you should begin developing. Credit will become essential as an adult, thus it is wise to begin monitoring your credit usage now. Information on what credit is, how to build credit, and credit habits can be found in another document.

The number of financial resources available are endless. Finances are not something to be uncertain about, so it is critical to learn where you can access reliable information in times of uncertainty. Speaking to a bank representative is the best way to receive accurate information. Be careful when using the internet and only take advice from credible sources.

$2,164.97

Here's a quick way to get started: by making a coffee at home two days every week for the duration of an undergraduate degree, you could save as much as $520 a year! If you were to put this money away in a high interest savings vehicle earning 2%, you could have more than $2,000 saved! For a better explanation of compound interest, watch this video by CBA.

How do I create a budget? What components should my budget contain?

Before building your budget, for one month, keep a log of your expenses. The budget will only be reliable if it is accurate, so keeping this log before will allow you to base your projections on facts.

Here are some resources that offer budget tools or templates:

Ontario Securities Commission

Government of Canada

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While budgeting, you should always overestimate your expenses and underestimate your income. It is better to be on the conservative side with budgeting. Your budget should change as you do, so it is important to constantly review and update your budget to fit your current lifestyle and spending habits.

What are the different ways I can save my money?

There are numerous different methods you can use to save your money. These are a few examples of some habits you can develop:

- Take advantage of student discounts (grocery stores, phone and internet plans, clothing, etc.)
- Whenever you plan to make a major purchase, wait 24 hours before making any commitments to be sure you want it
- Put aside 10% of your monthly income into a savings account or emergency fund
- Save $1-3 per day for non-essential purchase. This may not seem like much, but it accumulates well over time to give you lots of extra spending money
- Try to pack lunches or designate a day to eat out to avoid impulses

What is a savings account? What are the differences between saving accounts?

A savings account is a bank account that allows you to accumulate interest payments from the money you deposit. Essentially, a savings account allows you to make money off of your money. Though most savings accounts have the same premise, there are a few factors by which they may differ:

- Interest rates (the amount you receive from your deposits)
- Minimum deposit amount
- Service fees
- Withdrawal access (how many withdrawals you can make from your savings account)
- Tax (some savings accounts charge income tax on the money you accumulate from interest)

The Government of Canada offers an [Account Comparison Tool] that allows you to explore the many options for opening an account at Canada's primary financial institutions. Here, you can compare features for different chequing and savings accounts, including interest rates, monthly fees and transactions, to find an account that best suits your needs.

LOANS AND MORTGAGES

What is a loan? How does it work? Who can get one?
A loan is a sum of money borrowed from financial institutions like banks and credit unions, as well as alternative lenders such as payday lenders, title loan companies, private lenders and pawn shops.

Loans are beneficial to you because they give you access to large sums of money you may not otherwise have. They can be useful in financing purchases like vehicles, renovations, or other expensive purchases, when used appropriately. They are beneficial to the lender because in exchange for the convenience they provide and the risk they incur, they charge interest and fees. Below is an illustration of the cost of a loan:

$10,000 Principal	+	**$1,050** Interest	+	**$250** Fees	=	**$11,300** Total Cost

Generally speaking, anyone who has regular income, a bank account, and a permanent address can get a personal loan. Typically, before you are given the loan, the lender will run a credit check to ensure they believe they'll be able to recuperate their costs.

How can I compare loan options?
The best way to compare loans is by calculating their total cost, like what is shown above. Things like number of payments, length of term, and interest rate can all affect how much the loan will end up costing you. There are [many calculators] available online to assist with these calculations. Below is an example, from the Government of Canada, on how the length of term can affect the price:

Table 1: Example of the total cost of personal loan with different terms

Option	Monthly amount	Term	Total
1	$185	12	$2,220
2	$75	36	$2,700
3	$53	60	$3,180

What is a mortgage?

In simple terms, a mortgage is a loan specifically used when purchasing a home. It is unique because it typically uses the home itself as collateral. Regular payments are arranged that facilitate a buyer paying the lender the capital cost of the home (known as principal) plus interest. There are many different types of mortgages, available from a number of financial institutions.

Since a mortgage is often the largest financial commitment you will make in your lifetime, it is important to understand their inner workings to ensure you enter an agreement that is right for you.

Open mortgages allow the buyer to prepay all or portions of the mortgage without penalty.This means that buyers can pay amounts beyond the regular payments whenever they wish. As a result of this flexibility, interest rates are typically higher, and this type of mortgage is generally more rare.

Closed mortgages do not allow for any prepayment. The payments are regular and scheduled according to the mortgage contract. They typically have lower rates than open mortgages as a result of limited flexibility.

Fixed rate mortgages have a constant interest rate for the term of the agreement, which can be one, three, five, or more years. The interest rate does not change based on the stock market or inflation.

Variable rate mortgages have fluctuating interest rates. These rates are assessed on a more frequent basis, and the amount you pay will be adjusted accordingly. They are common when rates are expected to drop.

Many other special mortgage features exist when entering into a contract. It is crucial to do research about all features available to you, to ask the lender or broker to explain your options, and to consult a financial advisor if necessary.

Some good starting points for researching mortgage terms are:

- Financial Services Commission of Ontario
- Government of Canada
- Canada Mortgage and Housing Corporation
- The website of your financial institution

What are the risks involved?
Inherently, mortgages carry risk because of the length of the term of repayment and the large sum of money being borrowed. It is important to seriously consider whether you are in a position to afford a mortgage, or whether you should consider alternatives. Likewise, you must plan ahead well into the future to ensure you will be able to meet the commitments of the mortgage through the terms of the agreement.

In the event that you decide to exit the contract prematurely, you can expect to pay fees to the lender. These may include:
- A prepayment penalty and, if so, how much
- An administration fee
- An appraisal fee
- A reinvestment fee
- A fee to remove a charge on your current mortgage and register a new one

Prepaying or overpaying without prepayment privileges can also have associated costs or penalties (surprisingly). Though it is the responsibility of the lender or institution to make you aware of these fees, you should also check that they match your expectation prior to entering an agreement.

How do I pay off a mortgage?
In most cases, the first step of buying a home is paying a down payment to the lender. Depending on the price of the home, the minimum down payment can range between 5% and 20% of the purchase price. Sometimes, if your credit history doesn't meet the lender's requirements, you may be required to pay more than the minimum.

After making the initial down payment, you will begin making regular payments at fixed intervals. The terms of how much, starting and ending dates, and frequency, will all be included in the mortgage contract. An example arrangement would be paying $2,500 each month for 25 years to pay for a home that cost $600,000. Click on the image to see how different factors of a mortgage agreement affect how much you end up paying. Depending on the terms of the agreement, arrangements can be made for early or lump sum payments, which can help to pay off the mortgage faster.

BASICS OF INVESTING

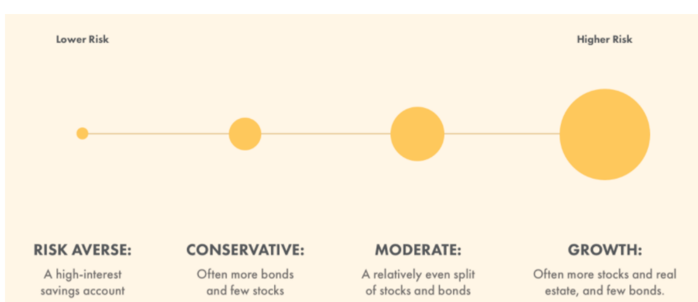
Am I ready to invest? How much should I invest?
Investing is a crucial step in financial wellbeing. That being said, many people don't feel comfortable with investing, or don't know where to start. Let's dive into the basics of investing and hopefully show you how to get started!

There are some questions you need to ask yourself to begin, to determine if you're ready for investing based on your current financial situation:

1. You have paid off all high interest debts
   In order for your investments to actually be profitable, you need to ensure that things like credit cards have been completely paid off, Focus on them first!
2. You have savings or an emergency fund
   Before allocating income to investments, make sure you have set aside an amount that is roughly equivalent to 6 months of expenses.
3. You are willing to stick to a plan
   Successful investing requires strategy, commitment, and patience!

You will also need to consider your personal **risk tolerance**. This is a measure of how comfortable you are with risk and not knowing what you will earn or lose on your investment. In other words, if you prefer little to no risk, you have a low risk tolerance, or are "**risk averse**." You may, however, have a high risk tolerance if you are willing to lose some or all of your investment for the chance of earning more.

Considering the following will be helpful in helping you determine your tolerance:
- When will you need the money?
- Do you have enough money set aside for an emergency and to cover debts?
- Is your job stable?
- Can you tolerate investments where returns may be unpredictable or subject to sudden changes in value?
- How would you react if your investments declined in value?



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As far as how much you should invest, the easy answer is as much as you are able! This means anything left over after paying for any loans or debts, living expenses, and savings. Consider investing an alternative to leisure purchases - except they will yield future returns.

That being said, you can also start investing with very little amounts. For example, some accounts have no minimum balances, or minimums as low as $10 or $100. One of the most important things to remember is that it can make all the difference to start early. Do not delay - if you are able to, open an investing account such as a Tax-Free Savings Account (more on this throughout the collection) and start with a small investment.

What options are there for investing?

There are many different options when it comes to investment vehicles. Each comes with its own advantages, disadvantages, risk levels, and historical rates of return. Finding a balance of these factors is all about personal preference. Some investors prefer to take a passive approach by investing in long-term, secure investments like bonds. Others prefer an active approach in high-risk stocks.

Here is a breakdown of some of the different vehicles available:

- **Stocks**: A stock is a unit of ownership in a company which is bought and sold on a stock exchange. Stocks are also called "shares" or "equities". There are thousands of stocks available on Canadian, US, and International markets. The risk is inherently high, due to market fluctuations, but the average return of the entire stock market (in the long term) is around 10%.

- **Bonds**: A bond is a certificate you receive for a loan you make to a company or government (an issuer). In return, the issuer of the bond promises to pay you interest at a set rate and to repay the loan on a set date. They are typically low risk and can offer rates of return around 5%.

- **ETFs**: An exchange traded fund is an investment fund that holds assets such as stocks, commodities or bonds. Exchange traded funds trade on stock exchanges and have a value that is similar to the total value of the assets they contain. This means that the value of an exchange traded fund can change throughout the day. The level of risk depends on the holdings of the ETF, and returns can vary between 5-15%.

- **Mutual Funds**: A mutual fund is a type of investment in which the money of many investors is pooled together to buy a portfolio of different securities. A professional manages the fund. They invest the money in stocks, bonds, options, money market instruments or other securities.

- **REITs**: real estate investment trusts are companies that own or finance income-producing real estate across a range of property sectors. These real estate companies have to meet a number of requirements to qualify as REITs. Most REITs trade on major stock exchanges, and they offer a number of benefits to investors. Their risk is moderate to high, but they offer average returns of around 10%.

- **GICs**: A GIC is an investment that protects your invested capital. You will not lose money on the investment. GICs can have either a fixed or a variable interest rate. There is virtually no risk with GICs, but as a result, their returns are very low - currently less than 1%.

- **T-Bills**: A T-bill is a short-term, low-risk investment issued by a federal or provincial government. It is sold in amounts ranging from $1,000 to $1 million, and must be held for a fixed term which can range from one month to a year. Similarly to GICs, T-Bills have low risk and very low return - currently around 0%.

A good rule of thumb is that diversification will lead to more security and higher returns. **Diversification**, in terms of investing, refers to investors holding multiple different securities instead of just one or two. For example, an investor who holds stocks, bonds, ETFs, mutual funds, and real estate funds will have a lower risk portfolio overall compared to someone who invests only in stocks.

Here's a trick to getting started - invest in ETFs. ETFs are like containers that hold other stocks and securities, but are treated as one. This is a great way to start investing in the stock market because it allows you to hold stocks in multiple companies without having to do extensive research or hand pick them yourself. Be warned, ETFs typically have a management fee, which, though typically much lower than those of mutual funds, can affect returns in the long term. Click here to learn more about Exchange Traded Funds.

Here is a calculator to help visualize what different periods and interest rates can affect the value of your investment.

Are there costs associated with investing?

[This section is adapted from the Government of Canada - The basics of investing at canada.ca/en/financial-consumer-agency/services/savings-investments/investing-basics.html#toc4]

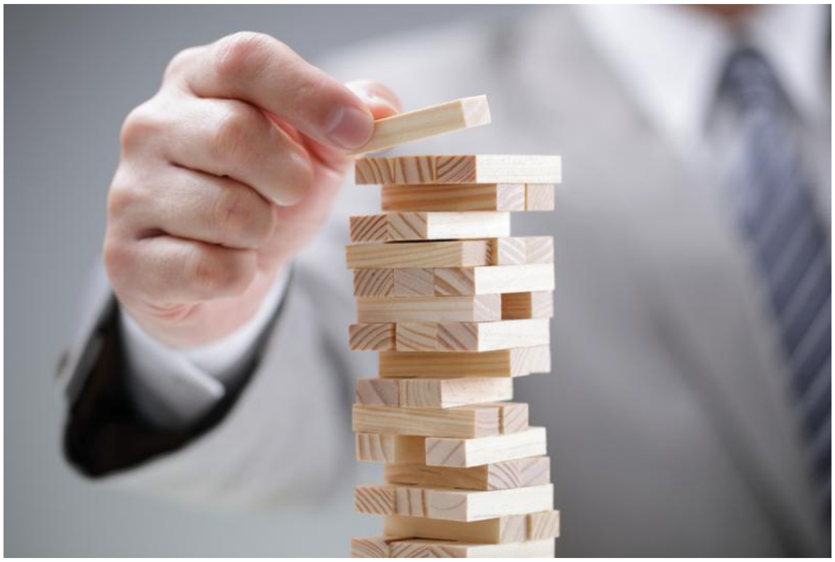
There are different fees and costs depending on the investment type. These costs can impact your return, so it's important to be aware of them. Depending on the type of investment, most fees and costs fall into the following categories:

- Costs to buy an investment
- Costs when you sell an investment
- Investment management fees
- Financial advisor fees
- Administration fees for registered plans

The cost of **buying** an investment depends on the type of investment. You may pay a trading fee every time you buy a stock or exchange traded fund. For this reason, you may want to limit the frequency of your purchases. Brokerages and investment firms set their own fees, so the trading fee depends on the company you use. Mutual funds can have different fees when you buy them:

The cost of **selling** an investment depends on the type of investment. With some mutual funds, instead of paying a fee, or “front-end load” fee when you buy, you pay a fee when you sell. This is known as a “back-end load” fee.

- Generally a percentage of your selling price
- Normally highest in the first year after purchase
- Gradually decreases for every year you hold the investment
- May be waived by the fund dealer if you hold the investment long enough



Investment funds, including mutual funds, charge a fee for managing the fund. The fees are called the management expense ratio (MER). The MER:

- May include an ongoing commission paid to advisors who sell the fund (also known as a trailer fee)
- Is paid regardless of whether the fund makes money
- Is deducted before calculating the investor's return
- Is set at a percentage of the fund's value

The percentage varies depending on the fund. This can be from less than 1% to over 3%. For example, you may have a fund with an annual return of 5%. If the fund's MER was 3%, your net annual return would be 2%.

Where do I start?

There is always more to learn when it comes to investing. Before making any decisions surrounding large investment decisions, consult a financial advisor or the following resources:

- Government of Canada
- Investopedia
- Wealthsimple